



Taking you to the **next** level



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Audit Focus - what we've seen and heard!

In the last newsletter we shared that the IRD have increased activity around the request for further information, particularly in relation to GST verification, property and Bright-line disclosures and general tax compliance. There has also been a focus on tax payers that are GST registered and who have been filing \$Nil GST returns for a period of six months or more.

The latest sector campaign the IRD has recently released as a target group is real estate agents. From IRD's perspective they have identified that these tax payers are claiming a high level of expenses relative to their incomes. We suspect they have now been returning a high level of income given the recent demand within the property market, but questions are being asked.

Xero price changes coming

Xero have recently announced that the monthly subscription price will increase from 23 September 2021. Clients who currently have a Starter Plan, the price increase will be \$1.50; the Standard Plan will increase by \$3.00. For clients using the Cashbook subscription, the increase takes effect from 16 March 2022 with \$1 - \$2 increase depending if you use a non-GST or GST cashbook. These price increases will be passed on so your invoices and direct debits will be amended accordingly.

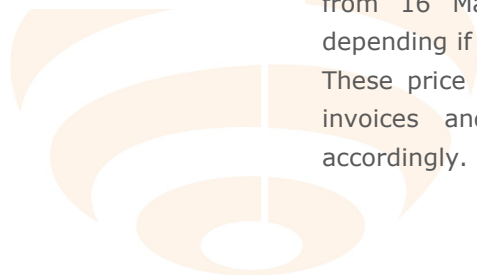
New Office Hours

We have recently made a change to our office hours.

Our office will be open from
Monday to Thursday 8:30am to 5:00pm.

On **Fridays** our office hours will be
8:30am to 2:00pm.

No appointments or phone calls will be taken after 2:00pm on a Friday.



IMPORTANT NOTICE FOR ALL PROVISIONAL TAX PAYMENTS

Recent IRD changes have created unintended surprises for tax payers.

All tax notices must be paid in full and on time!

New interpretation now demands that any short payment or late payment of Provisional Tax will trigger Use of Money Interest (UOMI) on any outstanding tax over the whole year, meaning the "Safe Harbour" rules will no longer apply.

At times, there may be a delay in identifying this issue due to timing of completing your tax return and not being able to double check all of our client's tax payments. To date we have spent a significant amount of time addressing & rectifying this issue which we may need to charge for (unless it is beyond your control).

Our advice - Ensure that all payments are made in full and on time and to the correct IRD tax account and tax period to ensure you stay within the rules to escape UOMI. All notices we issue have the tax payer IRD number, tax type and period included, please make sure these match your online banking selections.

If you find you have been charged UOMI and you're unsure as to why, please contact one of our team on (07) 573 8446 rather than contacting the IRD directly as the IRD are often incorrect.

Key Tax Dates

Date	Taxes payable
20 July 2021	PAYE - Period ended 30 June 2021
28 July 2021	GST - Period ended 30 June 2021
20 August 2021	PAYE - Period ended 31 July 2021
28 August 2021 (30 August 2021)	GST—Period ended 31 July 2021
	1st instalment of 2022 Provisional Tax
20 September 2021	PAYE - Period ended 31 August 2021
28 September 2021	GST—Period ended 31 August 2021

The removal of cheques - Council's following suit!

Tauranga City Council has announced they will no longer accept cheques from Friday 28th May 2021. Payment of rates and other council services will need to be paid either on online, direct debt or through their website. They have also announced that a 1.3% surcharge will be applied to debit or credit card payments.

Debt collection campaign

IRD have announced that they will continue with their debt collection campaign by phoning or sending text messages to tax payers directly if:

- The debt is more than 60 days overdue; and
- The amount of the debt is between \$200 - \$10,000

Our experience is that this process, at times, requests payments in error because further action was expected or a discussion has since taken place meaning that the debt will be removed. If you receive a request for payment direct from the IRD please seek our advice if you are unsure.

Tax Updates

We continue to see a significant number of tax changes, some have been announced and legislated while for others we are still awaiting legislation before we can understand how these changes may affect you.

Residential Property Transactions

From 27 March 2021, there are proposed changes to the **Bright-Line rules**.

The proposal is to extend the Bright-Line period from 5 years to 10 years. Excluded from the extended period will be new builds, however the definition of a "new build" has not yet been determined but is expected to include a property that has been acquired within a year of receiving their code of compliance certificate.

The other change is around determining the treatment for tax purposes when the residential property is not always the main home during the Bright-Line period. The definition of a "main home" will include some stricter rules so that the outcome is no longer 'all in or all out'! Previously we have been able to use a theory of "most of the time" which if you occupy the property mostly as your main home then you're out of the Bright-Line rules. It is proposed to change this to a "change-of-use" method which will require a record to be kept for the actual number of days you were not residing in your home over the 10 year period. Potentially this affects all of us now. Where the property is not a "main home" for a continuous 12 month period over the time of ownership then the Bright-Line rules will apply and you will be required to disclose and pay tax on a proportion of the profit made through a property value increase. New proposed legislation will also capture short-stay accommodation where the owner does not reside in the property.

From 27 March 2021, there are proposed changes to the **interest deductibility rules** on residential rental properties.

For new purchases after 27 March 2021 interest will not be claimable after 1 October 2021; for purchases before 27 March 2021 then interest is still claimable, however the deduction will be phased out over a 4 year period, as follows:

1 April 2020 – 31 March 2021	100% claimable
1 April 2021 – 31 March 2022 (Transitional Year)	Up to 30 September 2021 – 100% From then to 31 March 2022 – 75%
1 April 2022 – 31 March 2023	75% claimable
1 April 2023 – 31 March 2024	50% claimable
1 April 2024 – 31 March 2025	25% claimable
1 April 2025 – 31 March 2026	0% claimable

And then for property purchased prior to 27 March 2021 but further borrowings have since been drawdown on or after 27 March 2021 to improve or maintain the property, the same rules will apply, interest will not be able to be claimed as an expense from 1 October 2021.

From 1 July 2021, all sale and purchase agreements for a business or property transaction must include a **purchase price allocation** as part of the agreement.

This means that agreements will require a detailed market allocation of the price components that make up the transaction. For example, an orchard transaction will now need to include a price split for the land, buildings & chattels, land development, licenses, plant and machinery etc which will need to be separated out in the Schedule. This has been our request for some time now because it clarifies the tax position we are taking, and potentially allows a purchaser to continue tax benefits that the vendor had for some development.

Failing to detail this in the agreement will mean the seller is able to determine the allocation price within 3 months without negotiation of the purchaser, the seller must then notify the purchaser and IRD of the allocation they have determined. If after 3 months the seller has not made a notification then the purchaser has 3 months to do so; failing that the Commissioner of IRD has the ability to step in and determine. Remember, in a property transaction the sale and purchase must be a consistent tax treatment for both parties. There will be advantages and disadvantages for both parties and therefore a mutually agreed allocation at the time the contract is prepared is best.

Other updates

Loss Carry Forward Continuity Test - Companies that have tax losses in a year are limited to a change in shareholdings without affecting those tax losses available. Previously if a shareholding change was 49% or more then any losses would be forfeited. From the 2020/21 year a shareholding change that exceeds 49% is allowed without the tax losses being affected provided the underlying business continues, that means there is no major change in the business activities for either 5 years after the change in ownership or the period when the losses are used up, whichever is the earlier. *For any Company shareholding changes you should always let us know so we can determine if there are any implications with doing so.*

IRD Default Rates have been updated to allow for a CPI increase.

- Use of Home Office Square Metre Rate - \$44.75 per sqm
- Boarders weekly standard cost - \$194.00 for each boarder, this means if your boarder pays less than \$194.00 per week, this does not need to be disclosed for tax purposes
- Short-stay accommodation daily standard cost for each guest is \$52.00 if owned and \$47.00 if the property is rented. This means you do not have to determine a split between business and private for household costs, you can simply use this daily costs for when short-stay accommodation is provided
- Working For Families - Minimum Family Tax Credit has increased from \$30,576 to \$31,096 from 1 July 2021
- Welfare and Families - The budget announced benefit rates will increase between \$32 - \$55 per adult per week, over 2 stages. The first stage on 1 July 2021 and the second on 1 April 2022.

Cryptocurrency - Hot topic at the moment! IRD have recently released guidance on the tax treatment of Cryptocurrency, it is taxable and should be treated as trading stock each year to recognise the gain. If you intend to pay for services with Cryptocurrency then tax also needs to be considered, for employees this will become taxable income; for Goods and Services then you need to convert to NZD and recognise as income.

We will, over the coming months, deliver client presentations on these tax changes and the property related changes once legislation has been determined.

Audit Shield

On 31 July 2021 all the current policies come up for renewal. As usual, you will be invited to participate in this for the 2022 year. Audit Shield is available to all clients and with the magnitude of tax changes over the last few years, changes within the IRD system itself and increased questioning from IRD and audit activity, we do strongly recommend it.



Audit Shield covers all professional fees incurred from a simple phone call enquiry right through to an audit for any tax positions already taken and covering all tax return types within New Zealand. An invoice for professional fees could range from \$100 - \$10,000 depending on the complexity of the questions asked and the information required to respond to the IRD. We have historically been able to absorb these costs where minimal time is incurred, however with the increased activity and a significant amount of our time now being spent we may need to charge for these responses in the future - this is where Audit Shield will come in handy!

As per previous years, the majority of NZ Audit Shield claims were made up of GST Verification, Income Tax return disclosures and Client Risk Review. GST and Income Tax are the main interactions with the tax system since most business owners are both registered for GST and file Income Tax returns.

There continues to be direct notification or request of information between the IRD and you, the taxpayer. Our recommendation is that any query from the IRD is directed back to us at all times. That way we can communicate the correct response, potentially saving you time and money in the long run. This would be covered by Audit Shield (if accepted) when the initial contact occurs.